

CITY OF TORRANCE

DEFERRED COMPENSATION PLAN COMMITTEE

June 10, 2014 MEETING MINUTES

Members Present: Ms. Dana Cortez – City Treasurer
Mr. John Fellows – City Attorney
Ms. Leyta Fuentes – Operations/HR Manager
Ms. Mary Giordano – Assistant City Manager
Mr. Eric Tsao – Finance Director

Guests: Mr. Javier Obando and Ms. Carol Say – Great-West Retirement Services
Cathe Tocher (*via conference call*) – Great-West Retirement Services

Committee Consultants: Mr. John Campbell and Mr. Evan Pickering - Benefit Funding Services Group
("BFSG")

CALL TO ORDER

The first quarter meeting of the Deferred Compensation Committee (the "Committee") was called to order at 10:30am.

ROLL CALL

All members of the Committee were present for the entirety of the meeting: Ms. Dana Cortez, Mr. John Fellows, Ms. Leyta Fuentes, Ms. Mary Giordano, and Mr. Eric Tsao.

ACCEPTANCE AND FILING OF THE MARCH 4, 2014 MEETING MINUTES

All Committee members were present and unanimously accepted and approved the March 4, 2014 minutes as written.

INVESTMENT MEETING

I. Stable Value Fund Review

Cathe Tocher from Great-West Retirement Services provided the Committee a review of the Torrance Stable Value Fund via conference call. Ms. Tocher discussed a summary of the fixed income market for the 1st quarter of 2014. The Committee reviewed the current portfolio construction and performance of the underlying components of the fund. Due to evolving market conditions, risks, and opportunities, Ms. Tocher proposed broadening the Investment Policy of the Torrance Stable Value to include the following asset classes and allocations:

- AAA rated MBS, CMBS, and ABS
- Investment grade credit with a minimum rating of BBB- and maximum issuer exposure of 2%
- Decrease the maximum allocation to non-government securities from 100% to 50%
- Increase the maximum allocation to BBB rated corporate bonds from 0% to 10%

After discussion, the Committee agreed it was prudent to review a BBB- bond default rate study and shock-test analysis provided by Great-West prior to making any changes to the Investment Policy of the Stable Value Fund.

Great-West will provide the requested analysis to the Committee to review. Great-West, the Committee, and BFSG will coordinate a special meeting via conference call to discuss the analysis and proposed changes to the Investment Policy of the Torrance Stable Value Fund.

II. Investment Policy Statement

As part of its ongoing due diligence, and in order to help ensure that the Plan's Investment Policy Statement ("IPS") with respect to all of the non-Stable Value options continues to remain up-to-date

and relevant, BFSG discussed a number of proposed changes to the IPS. BFSG will provide the Committee a draft IPS to review at the next regularly held meeting.

BFSG will provide the Committee a draft “IPS” with proposed changes at the next regularly scheduled meeting.

III. Retirement Plan Quarterly Investment Review (1Q14)

Mr. Campbell provided an economic and capital market review for the period ending 3/31/2014. Gross Domestic Product (GDP), unemployment, inflation, and interest rates were discussed. Benchmark returns as measured by the Barclays Aggregate Bond Index, S&P 500 Index, and MSCI ACWI ex USA Index were also reviewed. Mr. Campbell provided additional commentary on the following noteworthy investment options in the Plan:

PIMCO Total Return underperformed its benchmark and peer group on a one-year period largely due to management’s tactical strategy. The fund was overweight to emerging markets debt and Treasury Inflation Protected Securities (TIPS) which detracted from performance over a one-year period. The ten-year performance of the fund ranks in the top 6th percentile of its peer group.

Dodge & Cox Stock outperformed its benchmark and peer group over a one-, 3-, 5-, and 10-year period. The fund traditionally performs better during robust markets and has performed accordingly. The fund’s overweight to healthcare has contributed to its short-term outperformance.

Oppenheimer Developing Markets has demonstrated outperformance against its peer group and benchmark on a one-, 3-, 5-, and 10-year period. The fund has performed well in up and down markets. The fund’s performance over a 10-year time period is ranked in the top percentile against its peer group.

The evaluation methodology of each of the funds in the Plan was reviewed in accordance with the IPS. It was noted that the average rank of the funds in the Plan was 13 and the Plan-weighted rank was 12. One fund, which is scheduled to be removed from the Plan, was ranked “underperform”, and all seventeen other funds in the Plan were ranked “outperform.”

The Committee reviewed the investment report for the 3121 Plan. It was noted that the largest holding (85% of the assets) in the Plan is the Stable Value Fund. Three funds in the Plan were ranked “underperform,” nine funds ranked “perform,” and five funds ranked “outperform.”

ADMINISTRATIVE MEETING

I. 2013 Annual Report

BFSG presented the Committee with a draft copy of the 2013 Deferred Compensation Plan Annual Report. The Report is intended to provide City Council with an update of Plan and investment related activities for the year. The Committee will review the draft and provide feedback prior to it being presented to City Council.

The Committee will provide feedback to BFSG to finalize the Annual Report. The Report will be provided to City Council by the Committee.

II. Plan Expense Reimbursement Account Review

The Committee reviewed the Plan Expense Reimbursement Account (“PERA”) Policy which provides guidelines on how to manage excess revenue reserves in the Plan. It was noted that as of 3/31/2014 the revenue in the PERA is approximately at the reserve requirement outlined in the Policy. BFSG discussed potential updates to the Policy. The Committee will review the Policy and discuss at the next Committee meeting if any updates should be made.

The Committee will review the Policy and the proposed updates by BFSG at the next regularly scheduled Committee meeting.

III. Participant Survey Results

Mr. Obando reviewed the results of the participant survey that was drafted by Great-West and the Committee. The survey provided feedback on the Plan and the support services offered by Great-West. It was noted that only 33% of the responders were aware of the retirement readiness support service offered by the Great-West Financial Retirement Resource Center; however the participants who were aware of the service felt strongly about its importance.

IV. Quarterly Review

Ms. Say provided a 1st quarter review of the Deferred Compensation Plans which included a review of asset allocation, contributions, distributions, enrollments and Plan growth. It was noted that on a year-to-date basis the number of distributions is down from prior quarters; however, the number of loans remains nearly the same.

CLOSING

A motion to adjourn the Deferred Compensation Committee meeting was unanimously approved by all Committee members present at the meeting: Ms. Cortez, Mr. Fellows, Ms. Fuentes, Ms. Giordano, and Mr. Tsao. The meeting adjourned at 12:10 pm.

MOTION APPROVED, Deferred Compensation Plan Committee meeting adjourned.